

# Fiscal Note

*Fiscal Services Division*



---

**HF 2438** – Revenue Department Technical Bill (LSB 5311HV)  
Analyst: Jeff Robinson (Phone: (515) 281-4614) ([jeff.robinson@legis.iowa.gov](mailto:jeff.robinson@legis.iowa.gov))  
Fiscal Note Version – New

---

## **Description**

**House File 2438** includes provisions to codify existing practices regarding the administration of State taxes. This Bill has six Divisions:

- Division I - Gives the Director of the Department of Revenue the power and duty to ensure that the total amount of money transferred to local governments or other entities regarding local option urban renewal projects, flood mitigation projects, and Iowa reinvestment projects does not exceed the amount of applicable taxes collected during the same fiscal year within the geographic boundaries of the projects.
- Division I - Allows the Property Assessment Appeals Board to accept electronic submission immediately by striking language referencing the beginning date for that authority as January 1, 2014.
- Division II - Changes terminology as to how separate tax forms are to be included with an income tax return.
- Division III - Removes alcoholic beverage control bonds from the list of exempt bonds from individual income tax. The authority to issue and claim the tax exemption for such bonds was repealed in 2011.
- Division III - Reorganizes the requirements for making and filing an individual income tax return to update references to [Iowa Code section 422.5](#), subsection 3B, which provides for filing thresholds for taxpayers 65 years of age or older, and to make other nonsubstantive changes. The division applies retroactively to January 1, 2014, for tax years beginning on or after that date.
- Division IV - Amends the sales and use tax exemption for sales to community health centers and migrant health centers to reflect the current name of those centers under federal law.
- Division V - Relates to hotel and motel tax by reorganizing and renumbering the Code section relating to the administration of the tax. Additional language is added to differentiate between the information that applies to general administration and the information that applies to administration of the Reinvestment District program.
- Division VI - Amends the definition of equipment taxes in [Iowa Code chapter 423D](#) by striking language that exempts from the equipment tax the sales price from transactions subject to State sales tax under [Iowa Code section 423.3](#). This change maintains the 5% equipment tax levied by the State on the equipment purchases. This change takes effect upon enactment and applies retroactively to July 1, 2008, for all sales and use taxes on equipment remitted on or after that date.

## **Background**

There is currently a significant question as to whether the existing 5.0% equipment tax is enforceable. However, the invalidity of the tax has not been established by a court, and the Department has not provided an official statement that the tax is not enforceable. Therefore, the tax is at this time considered legitimate.

Should the Department of Revenue or a court declare the equipment tax invalid, the State will be required to refund back taxes, with interest, to any effected taxpayer who applies for a refund. Refunds would be allowed for taxes paid during the period from June 2011 through June 2014. Future tax payments from the equipment tax would also cease. The Department of Revenue estimates that should the tax be determined to have been improperly applied, and Division VI is not enacted, net General Fund revenue will be reduced by the amounts in **Table 1**.

<b>Table 1 - Equipment Tax Revenue Implications</b>			
In Millions			
	Increased Tax Refunds	Reduced Tax Receipts	Combined Revenue Impact
FY 2015	\$ -14.1	\$ -7.3	\$ -21.4
FY 2016	-7.0	-7.6	-14.6
FY 2017	-3.5	-7.8	-11.3
FY 2018	0.0	-8.0	-8.0

### **Fiscal Impact**

Divisions I through V do not have identifiable fiscal impacts.

Enactment of Division VI relating to the 5.0% equipment tax will have a positive fiscal impact on the State General Fund if it is determined that the existing code is not being properly applied. However, that determination by the Department or by a court has not been made. Therefore, the change in Division VI only has a potential fiscal impact at this time.

### **Sources**

Department of Revenue

/s/ Holly M. Lyons

March 10, 2014

---

The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.

---